

MONTICELLO INDEPENDENT SCHOOL DISTRICT

FINANCIAL STATEMENTS
June 30, 2005

MONTICELLO INDEPENDENT SCHOOL DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2005

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Certified Public Accountants

MEMBERS:
Kentucky Society of CPAs
American Institute of CPAs

1994 North Main Street
Monticello, Kentucky 42633
Phone 606-348-9329 Fax 606-348-9320
Email: gordon@kycpas.net
daryl@greattinger@alltel.net

INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Monticello Independent Board of Education
Monticello, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Monticello Independent School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office Of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the State Committee for School District Audits in the *Appendix I of the Independent Auditors' Contract – General Requirements, and Appendix II of the Independent Auditor's Contract – State Audit Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Monticello Independent School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005 on our consideration of Monticello Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and pages 30 through 31 are not a required part of the basic financial statements but are supplementary information required by *Governmental Accounting Standards*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Monticello Independent School District's basic financial statements. The budgetary comparison information on pages 30 through 31 and the combining nonmajor fund financial statements on pages 32 through 33 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 36 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Greattinger & Crowley, PSC

October 21, 2005

Monticello Independent Schools - Monticello, Kentucky
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2005

As management of the Monticello Independent School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- . The beginning cash balance for the District was \$1,271,062.
- . The main focus of the Monticello Independent Board of Education is instruction. 60% of the total General Fund budget of \$4,540,065 was spent on instruction for the 2004/2005 school year.
- . The Board is working diligently on receiving funding for a new MS/HS for the District. All FSPK fund balances are put in escrow to increase the bonding potential in preparation for this project.
- . The General Fund had \$4,984,434 in revenue which primarily consisted of the state program (SEEK), property taxes, utility taxes and motor vehicle taxes. The General Fund had a total budget of \$4,540,065 and had expenditures of \$5,114,108.
- . The district made \$266,636 in debt payments for the 2004/2005 school year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline the functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are the Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The propriety funds are food service operations and school age child care. All other activities of the district are included in the governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3,179,494 as of June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

NET ASSETS FOR THE PERIOD ENDING:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current Assets	\$1,415,160	\$1,369,811
Noncurrent Assets	<u>4,450,341</u>	<u>4,549,882</u>
Total Assets	\$5,865,501	\$5,919,693
Current Liabilities	\$ 304,431	\$ 212,927
Noncurrent Liabilities	<u>2,381,576</u>	<u>2,508,334</u>
Total Liabilities	\$2,686,007	\$2,721,261
Net Assets		
Investment in Capital Assets (net of debt)	\$1,990,341	\$1,959,882
Restricted Fund Balance	504,178	498,134
Unrestricted Fund Balance	<u>684,975</u>	<u>740,416</u>
Total Net Assets	\$3,179,494	\$3,198,432

ACTIVITIES FOR THE PERIOD ENDING:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
REVENUES		
Program Revenues		
Charges for Services	\$ 77,662	\$ 92,106
Operating Grants and Contributions	2,407,022	2,317,157
Capital Grants and Contributions	321,365	280,558
General Revenue		
Taxes		
Property Tax	\$ 182,731	\$ 192,382
Motor Vehicle Tax	43,357	41,823
Utility Tax	237,676	251,970
Other Tax	2,612	3,809
State Aid	3,628,215	3,174,002
Investment Earnings	12,325	10,018
Other Revenue	<u>39,843</u>	<u>43,502</u>
Total Revenues	\$ 6,952,808	\$ 6,407,327
EXPENDITURES		
Instruction	\$ 4,565,863	\$ 4,229,251
Support Services		
Student	280,124	334,652
Instruction Staff	150,718	164,821

District Administrative	314,636	282,465
School Administrative	203,666	242,993
Business	158,040	145,523
Plant Operation and Maintenance	382,672	309,694
Student Transportation	275,164	261,068
Community Service Activities	88,591	102,409
Interest on long-term debt	135,705	141,200
Food Service	412,040	388,421
Other Business Activities	<u>4,527</u>	<u>8,111</u>
Total Expenditures	\$ 6,971,746	\$ 6,610,608
Change in Net Assets	\$ (18,938)	(203,281)
Net Assets – Beginning	3,198,432	3,401,713
Net Assets – Ending	3,179,494	3,198,432

The net assets of the school district decreased by \$18,938.

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The district implemented GASB 34 and recorded fixed assets and debt.

COMMENTS ON BUDGET COMPARISONS

- . The District's total revenues for the fiscal year ended June 30, 2005, were \$4,984,433.
- . General fund budget compared to actual varied slightly from line item to line item with the ending actual fund balance being \$573,065.
- . The total cost of all programs and services was \$5,096,889.
- . General fund budget expenditures to actual varied overall due to recording on-behalf payments made by the state for employee benefits. On-behalf payments are not included in the budget.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$227,003 in contingency (5%).

Questions regarding this report should be directed to Mr. Donnie Robison, Superintendent (606) 348-5311, or to Mrs. Glenette Hurd, Finance Officer (606) 348-5311 or by mail at 132 College Street, Monticello, Kentucky 42633.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
DISTRICT WIDE
As of June 30, 2005

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents	\$1,103,630	\$94,562	\$1,198,192
Accounts receivable:			
Grants	139,452	-	139,452
Taxes	29,715	-	29,715
Accounts	-	31,121	31,121
Inventory	-	16,680	16,680
Total current assets	1,272,797	142,363	1,415,160
Noncurrent Assets			
Non-depreciable capital assets	178,455	-	178,455
Depreciable capital assets	7,605,765	164,613	7,770,378
Less: Accumulated depreciation	(3,386,497)	(111,995)	(3,498,492)
Total noncurrent assets	4,397,723	52,618	4,450,341
Total assets	5,670,520	194,981	5,865,501
LIABILITIES			
Current Liabilities			
Accounts payable	29,580	-	29,580
Deferred revenue	99,932	-	99,932
Sick leave payable	-	-	-
Outstanding debt service	368	-	368
Interest payable	39,551	-	39,551
Bonds payable and capital leases	135,000	-	135,000
Total current liabilities	304,431	-	304,431
Noncurrent Liabilities			
Sick leave payable	56,576	-	56,576
Bonds payable and capital leases	2,325,000	-	2,325,000
Total noncurrent liabilities	2,381,576	-	2,381,576
Total liabilities	2,686,007	-	2,686,007
NET ASSETS			
Invested in capital assets, net of related debt	1,937,723	52,618	1,990,341
Reserved for inventories		16,680	16,680
Restricted for KCFCC offer	328,949	-	328,949
Restricted for construction	101,973	-	101,973
Restricted for sick leave	56,576	-	56,576
Unrestricted	559,292	125,683	684,975
Total net assets	\$2,984,513	\$194,981	\$3,179,494

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
DISTRICT WIDE

For the year ended June 30, 2005

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
Instruction	\$4,565,863	\$-	\$1,879,779	\$-	\$(2,686,084)	\$-	\$(2,686,084)
Support services:							
Student	280,124	-	8,731	-	(271,393)	-	(271,393)
Instruction staff	150,718	-	102,725	-	(47,993)	-	(47,993)
District administrative	314,636	-	-	-	(314,636)	-	(314,636)
School administrative	203,666	-	-	-	(203,666)	-	(203,666)
Business	158,040	-	-	-	(158,040)	-	(158,040)
Plant operation and maintenance	382,672	-	-	-	(382,672)	-	(382,672)
Student transportation	275,164	-	2,242	-	(272,922)	-	(272,922)
Facilities acquisition and construction	-	-	-	321,365	321,365	-	321,365
Community service activities	88,591	-	87,340	-	(1,251)	-	(1,251)
Interest on long-term debt	135,705	-	-	-	(135,705)	-	(135,705)
Total governmental activities	6,555,179	-	2,080,817	321,365	(4,152,997)	-	(4,152,997)
Business-type Activities							
Food service	412,040	77,137	326,205	-	-	(8,698)	(8,698)
Other business activities	4,527	525	-	-	-	(4,002)	(4,002)
Total business-type activities	416,567	77,662	326,205	-	-	(12,700)	(12,700)
Total school district	\$6,971,746	\$77,662	\$2,407,022	\$321,365	\$(4,152,997)	\$(12,700)	\$(4,165,697)
General Revenues							
Property taxes					182,731	-	182,731
Delinquent property tax					2,565	-	2,565
Motor vehicle taxes					43,357	-	43,357
Utility taxes					237,676	-	237,676
Other taxes					47	-	47
Revenue in lieu of taxes					15,381	-	15,381
State aide formula grants					3,628,215	-	3,628,215
Federal sources					7,589	-	7,589
Earnings on investments					11,363	962	12,325
Miscellaneous					15,112	343	15,455
Gain on sale of fixed assets					1,418	-	1,418
Total general revenues					4,145,454	1,305	4,146,759
Change in net assets					(7,543)	(11,395)	(18,938)
Net assets - beginning					2,992,056	206,376	3,198,432
Net assets - ending					\$2,984,513	\$194,981	\$3,179,494

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General Fund	Special Revenue	Building Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$572,932	\$(39,520)	\$434,163	\$136,055	\$1,103,630
Accounts receivable:					
Grants	-	139,452	-	-	139,452
Taxes	29,715	-	-	-	29,715
Accounts	-	-	-	-	-
Total assets	<u>\$602,647</u>	<u>\$99,932</u>	<u>\$434,163</u>	<u>\$136,055</u>	<u>\$1,272,797</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$29,580	\$-	\$-	\$-	\$29,580
Deferred revenue	-	99,932	-	-	99,932
Outstanding debt service	-	-	-	368	368
Accrued sick leave payable	-	-	-	-	-
Total liabilities	<u>29,580</u>	<u>99,932</u>	<u>-</u>	<u>368</u>	<u>129,880</u>
Fund Balances					
Reserved for:					
Capital projects	-	-	434,163	135,687	569,850
Unreserved					
Undesignated	573,067	-	-	-	573,067
Total fund balances	<u>573,067</u>	<u>-</u>	<u>434,163</u>	<u>135,687</u>	<u>1,142,917</u>
Total liabilities and fund balances	<u>\$602,647</u>	<u>\$99,932</u>	<u>\$434,163</u>	<u>\$136,055</u>	<u>\$1,272,797</u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances – governmental funds	\$1,142,917
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$7,784,220 and the accumulated depreciation is \$3,386,497.	4,397,723
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Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds, but they are reported in the statement of net assets.

Accrued interest payable	(39,551)
Bond obligations	(2,460,000)
Noncurrent sick leave payable	<u>(56,576)</u>

Total net assets – governmental activities	<u><u>\$2,984,513</u></u>
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MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2005

	General Fund	Special Revenue	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources					
Taxes:					
Property	\$147,973	\$-	\$34,758	\$-	\$182,731
Delinquent	2,565	-	-	-	2,565
Motor vehicle	43,357	-	-	-	43,357
Utility	237,676	-	-	-	237,676
Other	47	-	-	-	47
Revenue in lieu of taxes	15,381	-	-	-	15,381
Earnings on investments	10,433	600	-	930	11,963
State sources	4,502,882	306,654	194,583	126,893	5,131,012
Federal sources	7,589	898,896	-	-	906,485
Other revenues	15,112	-	-	-	15,112
Total revenues	4,983,015	1,206,150	229,341	127,823	6,546,329
Expenditures					
Instruction	3,418,094	1,015,143	-	-	4,433,237
Support services:					
Student	289,365	8,731	-	-	298,096
Instruction staff	47,086	102,725	-	-	149,811
District administration	333,591	-	-	-	333,591
School administration	204,472	-	-	-	204,472
Business support services	158,040	-	-	-	158,040
Plant operation and maintenance	406,082	-	-	-	406,082
Student transportation	240,159	2,242	-	-	242,401
Community service activities	-	87,340	-	-	87,340
Debt service:					
Principal	-	-	-	130,000	130,000
Interest	-	-	-	136,636	136,636
Total expenditures	5,096,889	1,216,181	-	266,636	6,579,706
Excess (deficit) of revenues over expenditures	(113,874)	(10,031)	229,341	(138,813)	(33,377)
Other Financing Sources (Uses)					
Proceeds from sale of fixed assets	1,418	-	-	-	1,418
Operating transfers in	-	10,031	-	217,883	227,914
Operating transfers out	(10,031)	-	(147,721)	(70,162)	(227,914)
Total other financing sources (uses)	(8,613)	10,031	(147,721)	147,721	1,418
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(122,487)	-	81,620	8,908	(31,959)
Net change in fund balances	(122,487)	-	81,620	8,908	(31,959)
Fund balance, June 30, 2004	695,552	-	352,543	126,781	1,174,876
Fund balance, June 30, 2005	\$573,065	\$-	\$434,163	\$135,689	\$1,142,917

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

For the year ended June 30, 2005

Net change in fund balance – total governmental funds	\$(31,959)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$223,655) exceeded capital outlays (\$126,717).	(96,938)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets; however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	130,000
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(8,646)</u>
Change in net assets of governmental activities	<u><u>\$(7,543)</u></u>

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
As of June 30, 2005

ASSETS	Food Service Fund	Other Proprietary Funds	Total
Current Assets			
Cash and cash equivalents	\$78,694	\$15,868	\$94,562
Accounts receivable	31,121	-	31,121
Inventory	16,680	-	16,680
Total current assets	126,495	15,868	142,363
Noncurrent Assets			
Furniture and equipment	136,308	28,305	164,613
Less: Accumulated depreciation	(109,859)	(2,136)	(111,995)
Total noncurrent assets	26,449	26,169	52,618
Total assets	\$152,944	\$42,037	\$194,981
LIABILITIES			
Current Liabilities			
Accounts payable	\$-	\$-	\$-
Total current liabilities	-	-	-
Noncurrent Liabilities			
Total noncurrent liabilities	-	-	-
Total liabilities	-	-	-
NET ASSETS			
Invested in capital assets, net of related debt	26,449	26,169	52,618
Reserved for inventories	16,680	-	16,680
Unrestricted	109,815	15,868	125,683
Total net assets	\$152,944	\$42,037	\$194,981

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the year ended June 30, 2005

	Food Service Fund	Other Proprietary Funds	Total
Operating Revenues			
Food service sales	\$77,137	\$-	\$77,137
Other operating revenues	343	525	868
Total operating revenues	<u>77,480</u>	<u>525</u>	<u>78,005</u>
Operating Expenses			
Salaries and wages	166,332	-	166,332
Purchased services	10,363	37	10,400
Supplies and materials	219,789	1,954	221,743
Depreciation	8,686	1,374	10,060
Property	2,412	1,162	3,574
Total operating expenses	<u>407,582</u>	<u>4,527</u>	<u>412,109</u>
Operating income (loss)	<u>(330,102)</u>	<u>(4,002)</u>	<u>(334,104)</u>
Nonoperating revenues (expenses)			
Federal grants	280,546	-	\$280,546
State grants	24,958	-	24,958
Donated commodities	20,701	-	20,701
Interest income	962	-	962
Loss from sale of fixed assets	(4,458)		(4,458)
Total nonoperating revenues (expenses)	<u>322,709</u>	<u>-</u>	<u>322,709</u>
Net income (loss)	<u>(7,393)</u>	<u>(4,002)</u>	<u>(11,395)</u>
Total net assets, June 30, 2004	<u>160,337</u>	<u>46,039</u>	<u>206,376</u>
Total net assets, June 30, 2005	<u>\$152,944</u>	<u>\$42,037</u>	<u>\$194,981</u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2005

Cash Flows from Operating Activities

Cash received from lunchroom sales	\$77,137
Cash received from other activities	3,710
Cash payments to employees for services	(166,332)
Cash payments to suppliers for goods and services	(216,808)
Cash payments for other operating activities	(3,574)
Net cash from operating activities	<u><u>(305,867)</u></u>

Cash Flows from Noncapital Financing Activities

Nonoperating grants received	305,504
Net cash from noncapital financing activities	<u><u>305,504</u></u>

Cash Flows from Investing Activities

Purchase of fixed assets	(13,250)
Interest on investments	962
Net cash flows from investing activities	<u><u>(12,288)</u></u>

Net increase in cash and cash equivalents	(12,651)
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Cash and cash equivalents - beginning	<u>107,213</u>
Cash and cash equivalents - ending	<u><u>\$94,562</u></u>

Reconciliation of Operating Income (Loss) to Net Cash

Provided (Used) by Operating Activities

Operating income (loss)	\$(334,104)
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Adjustments to Reconcile Operating Income (Loss) to

Net Cash Provided (Used) by Operating Activities

Depreciation	10,060
Commodities	20,701
Changes in current assets and current liabilities:	
Accounts receivable	2,842
Inventory	(4,993)
Accounts payable	(373)
	<u>(305,867)</u>

Net Cash Provided by Operating Activities	<u><u>\$(305,867)</u></u>
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Schedule of non-cash transactions:

Donated commodities	<u><u>\$20,701</u></u>
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MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
As of June 30, 2005

ASSETS	<u>Trust/Agency Fund</u>
Current Assets	
Cash and cash equivalents	\$146,804
Accounts receivable	736
Total current assets	<u>147,540</u>
 Total assets	 <u><u>\$147,540</u></u>
 LIABILITIES	
Accounts payable	\$81,386
Due to student groups	66,154
Total liabilities	<u>147,540</u>
 NET ASSETS	 <u><u>\$0</u></u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Monticello Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Monticello Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Monticello Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Booster, Parent-Teacher Association, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Monticello Independent School District Finance Corporation – On November 15, 1993, the Monticello Independent Board of Education resolved to authorize the establishment of the Monticello Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Monticello Independent Board of Education also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identify the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting fund by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balance, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operation. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 36 through 37. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Building Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is a major fund for the District.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

D. Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Proprietary Fund Types (Enterprise Fund)

- E. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The School Age Child Care Fund is used to account for school service activities that provide child care for school age children.

The District applied all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- F. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

The rules for activity funds state that school activity funds are not allowed to borrow or loan money. The school bank is not abiding by these rules because it makes loans to students.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the Accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipts by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes attach as an enforceable lien on the property at May 31. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2005, to finance the General Fund operations were \$.302 per \$100 valuation for real property and \$.302 per \$100 valuation for tangible property.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power and water.

Capital Assets

General capital assets are those not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in their respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The district maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend an assets life, are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings	25-50 years
Land Improvements	20 years
Technology equipment	5-10 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	20 years
Musical instruments	10 years
Grounds equipment	15-20 years
Other	10 years

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments adjusted for the effects of changes in its termination payment policy and other current factors.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Accounts Receivable

Accounts receivable in the Statement of Net Assets – District Wide are deemed to be collectible; accordingly, no provision for uncollectible accounts has been recorded.

Inventories

The food service fund inventories are stated at cost.

Investments

Investments are stated at fair value. The District has a certificate of deposit in the amount of \$150,000 with an interest rate of 2.50 percent.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

As of June 30, 2005, the long-term debt of the financial reporting entity consisted of the following:

Accrued sick leave		Bond obligations	
Current portion	\$-	Current portion	\$135,000
Non-current portion	56,576	Non-current portion	2,325,000
Total	<u>\$56,576</u>		<u>\$2,460,000</u>

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use of which do not represent available expendable resources and therefore are not available for appropriation or expenditure.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restriction imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – CHANGES IN ACCOUNTING PRINCIPLES

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34). Statement No. 34 makes significant changes in financial reporting. Subsequent to the issuance of GASB 34, GASB issued the following standards to be implemented at the same time GASB 34 is adopted; Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The District has implemented these standards effective July 1, 2003.

Statement No. 34, among other changes, adds two new "Government-Wide" (District-Wide) financial statements as basic financial statements required for all governmental units. The Statement of Net Assets and the Statement of Activities are the two new required statements. Both statements are prepared on the full accrual basis. The government-wide financial statements split the District's programs between business-type and governmental units, the District used the modified accrual basis of accounting for certain funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity fund financial statements.

In addition, all funds are reported as governmental, proprietary or fiduciary funds. The definitions for these types of activities are discussed in other portions of Note A.

Finally, all non-fiduciary funds are further classified as major or non-major funds. In reporting financial condition and results of operations for governmental units, the new standard concentrates on major funds versus non-major funds.

NOTE C – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE D – CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$1,197,824. The bank balance was covered by federal depository insurance or by a collateral agreement and collateral held by the pledging banks' trust department in the district's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Cash and cash equivalents at June 30, 2005, consisted of the following:

	Bank Balance	Book Balance
Checking	\$1,438,908	\$1,194,996
Certificate of deposit	150,000	150,000
	<u>\$1,588,908</u>	<u>\$1,344,996</u>

Breakdown per financial statements:

Governmental Funds	\$1,103,630
Proprietary Funds	94,562
Fiduciary	146,804
	<u>\$1,344,996</u>

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds.

NOTE E – BONDED DEBT

The amount shown in the accompanying financial statements as debt represents the District's future obligations to make payments relating to the bonds issued by the City of Monticello, the Monticello Independent School District Finance Corporation, Kentucky School Construction Commission, aggregating \$3,611,849.

The original amount of the issue, the issue dates, and interest rates are summarized below:

<u>ISSUE</u>	<u>ORIGINAL AMOUNT</u>	<u>INTEREST RATES</u>
Issue 1994	385,000	4.00 – 6.00%
Issue 1999	575,000	3.70 – 4.00%
Issue 2000	2,020,000	5.00 – 5.75%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Monticello Independent Finance Corporation to construct school facilities. The district has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the district and the Commission for each year until maturity of all bond issues.

The bonds may be called to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005, for debt service (principal and interest) are as follows:

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

<u>YEAR</u>	<u>MONTICELLO INDEPENDENT SCHOOL DISTRICT</u>		<u>KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION</u>		<u>TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2005-06	\$100,055	\$117,293	\$34,945	\$13,824	\$266,117
2006-07	108,412	112,915	36,588	12,182	270,097
2007-08	111,676	107,949	38,324	10,446	268,395
2008-09	114,837	102,928	40,163	8,607	266,535
2009-10	123,061	97,734	21,939	6,659	249,393
2010-11	129,646	91,250	20,354	5,342	246,592
2011-12	133,425	84,346	21,575	4,121	243,467
2012-13	142,131	77,186	22,869	2,827	245,013
2013-14	150,759	69,468	24,241	1,454	245,922
2014-15	160,000	61,220	-	-	221,220
2015-16	165,000	52,420	-	-	217,420
2016-17	175,000	43,345	-	-	218,345
2017-18	185,000	33,545	-	-	218,545
2018-19	195,000	23,000	-	-	218,000
2019-20	205,000	11,788	-	-	216,788
	<u>\$2,199,002</u>	<u>\$1,086,387</u>	<u>\$260,998</u>	<u>\$65,462</u>	<u>\$3,611,849</u>

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE F – FIXED ASSETS

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
Land	\$178,455			\$178,455
Land Improvements	215,262	9,871		225,133
Buildings & Building Improvements	6,047,008	20,450		6,067,458
Technology Equipment	528,890	76,863	(104,819)	500,934
Vehicles	629,466			629,466
General Equipment	164,884	19,534	(1,644)	182,774
TOTAL FIXED ASSETS	<u>\$7,763,965</u>	<u>126,718</u>	<u>(106,463)</u>	<u>\$7,784,220</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	178,048	5,426		183,474
Buildings & Building Improvements	2,054,271	120,442		2,174,713
Technology Equipment	448,525	53,389	(104,265)	397,649
Vehicles	478,607	31,720		510,327
General Equipment	108,518	12,677	(861)	120,334
TOTAL ACCUMULATED DEPRECIATION	<u>3,267,969</u>	<u>223,654</u>	<u>(105,126)</u>	<u>3,386,497</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$4,495,996</u>			<u>\$4,397,723</u>
PROPRIETARY ACTIVITIES:				
Technology Equipment	\$13,759	2,214		\$15,973
General Equipment	158,917	11,039	(21,316)	148,640
TOTALS AT HISTORICAL COST	<u>172,676</u>	<u>13,253</u>	<u>(21,316)</u>	<u>164,613</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	9,153	2,448		11,601
General Equipment	109,638	7,611	(16,855)	100,394
TOTAL ACCUMULATED DEPRECIATION:	<u>118,791</u>	<u>10,059</u>	<u>(16,855)</u>	<u>111,995</u>
PROPRIETARY ACTIVITIES CAPITAL ASSETS, NET	<u>\$53,885</u>			<u>\$52,618</u>

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$168,508
Student Support Services	11,518
Staff Support Services	3,089
District Administration	2,590
School Administration	1,327
Plant Operation & Maintenance	2,608
Student Transportation	32,763
Community Service Operations	1,251
	<hr/>
Total	<u>\$223,654</u>

NOTE G – RETIREMENT PLANS

Plan Description – The Monticello Independent School District contributes to the Teacher's Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and liability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes. KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four year college degree or certification by the Kentucky Department of Education (KDE).

The District also contributes to the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% and a district contribution of 8.48% of the employee's total compensation subject to contribution. Benefits under the plan varies based on final compensation, years of service, and other factors as fully described in the plan documents. Additional information and historical trend information can be obtained from the Comprehensive Annual Financial Report of the County Employee Retirement System of Kentucky.

The Monticello City School System's total payroll for the year was \$4,277,153. The payroll for employees covered under KTRS was \$3,223,572. For the year ended June 30, 2005, the Commonwealth contributed \$375,878 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2005 were \$46,571 which represent those employees covered by federal programs.

The payroll for employees covered under CERS was \$959,177. The contribution requirement for CERS for the year ended June 30, 2005, was \$129,297 which consisted of \$81,338 from the district and \$47,959 from the employees.

NOTE H – CONTINGENCIES

The District receives funding from the federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE I – INSURANCE AND RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of asset; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J – DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds had operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

General Fund	\$122,487
Food Service Fund	\$ 7,393
School Age Child Care	\$ 4,002

NOTE K – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Matching	\$10,031
Operating	Building	Debt Service	Debt	\$147,721
Operating	Capital Outlay	Debt Service	Debt	\$70,162

MONTICELLO INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

NOTE L – ANNUAL FINANCIAL REPORT DIFFERENCES

Audit report differs from the District's annual report filed with the state as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Outlay</u>	<u>Building</u>	<u>Construction</u>	<u>Proprietary</u>
Beginning fund balance understated:	\$7,188	\$2	\$22,659	\$306,290	\$102,615	\$65,573
		Audited		Annual Report		Difference
Expenses- General Fund		\$5,106,920		\$5,114,108		\$7,188
Expenses- Food Service		412,040		402,146		9,894
Expenses- School Age Child Care		4,002		13,154		9,152

SUPPLEMENTAL SCHEDULES AND INFORMATION

MONTICELLO INDEPENDENT SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**

For the year ended June 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues				
Taxes	\$380,387	\$428,196	\$431,618	\$3,422
Other local sources	60,500	35,500	30,493	(5,007)
Earnings on investments	20,000	20,000	10,433	(9,567)
State sources	3,171,749	3,329,227	4,502,882	1,173,655
Other sources	7,000	7,000	7,589	589
Total revenues	<u>3,639,636</u>	<u>3,819,923</u>	<u>4,983,015</u>	<u>1,163,092</u>
Expenditures				
Instructional	2,638,306	2,757,587	3,418,094	(660,507)
Student support services	284,279	298,811	289,365	9,446
Staff support services	52,588	52,765	47,086	5,679
District administration	137,759	267,662	333,591	(65,929)
School administration	179,663	181,042	204,472	(23,430)
Business support services	71,800	144,778	158,040	(13,262)
Plant operation & maintenance	295,816	359,359	406,082	(46,723)
Student transportation	239,301	241,058	240,159	899
Central office support	69,706	-	-	-
Faculty acquisition & construction	-	-	-	-
Debt service	-	-	-	-
Contingencies	362,418	227,003	-	227,003
Total expenditures	<u>4,331,636</u>	<u>4,530,065</u>	<u>5,096,889</u>	<u>(566,824)</u>
Excess (deficit) of revenues over expenditures	<u>(692,000)</u>	<u>(710,142)</u>	<u>(113,874)</u>	<u>596,268</u>
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets	2,000	2,000	1,418	(582)
Operating transfers in	-	-	-	-
Operating transfers out	(10,000)	(10,000)	(10,031)	(31)
Total other financing sources (uses)	<u>(8,000)</u>	<u>(8,000)</u>	<u>(8,613)</u>	<u>(613)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(700,000)</u>	<u>(718,142)</u>	<u>(122,487)</u>	<u>595,655</u>
Net change in fund balances	(700,000)	(718,142)	(122,487)	595,655
Fund balance, June 30, 2004	700,000	718,142	695,552	
Fund balance, June 30, 2005	<u>\$-</u>	<u>\$-</u>	<u>\$573,065</u>	<u>\$595,655</u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues				
Other local sources	\$1,200	\$796	\$600	\$(196)
State sources	312,583	323,722	306,654	(17,068)
Federal sources	930,674	1,166,317	898,896	(267,421)
Total revenues	<u>1,244,457</u>	<u>1,490,835</u>	<u>1,206,150</u>	<u>(284,685)</u>
Expenditures				
Instructional	1,081,923	1,329,431	1,015,143	314,288
Student support services	7,150	8,731	8,731	-
Staff support services	101,112	108,547	102,725	5,822
School administration	-	-	-	-
Plant operation & maintenance	290	67	-	67
Student transportation	2,814	834	2,242	(1,408)
Community service operations	91,708	83,765	87,340	(3,575)
Total expenditures	<u>1,284,997</u>	<u>1,531,375</u>	<u>1,216,181</u>	<u>315,194</u>
Excess (deficit) of revenues over expenditures	(40,540)	(40,540)	(10,031)	30,509
Other Financing Sources (Uses)				
Operating transfers in	40,540	56,000	10,031	(45,969)
Operating transfers out	-	(15,460)	-	15,460
Total other financing sources (uses)	<u>40,540</u>	<u>40,540</u>	<u>10,031</u>	<u>(30,509)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balance	-	-	-	-
Fund balance, June 30, 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2005	<u><u>\$-</u></u>	<u><u>\$-</u></u>	<u><u>\$-</u></u>	<u><u>\$-</u></u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
As of June 30, 2005

	Capital Outlay Fund	Debt Service	Construction Fund	Total Nonmajor Govt. Funds
ASSETS				
Cash and cash equivalents	\$32,142	\$368	\$103,545	\$136,055
Investments	-	-	-	-
Total assets	<u>\$32,142</u>	<u>\$368</u>	<u>\$103,545</u>	<u>\$136,055</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$-	\$-	\$-	\$-
Outstanding debt service	-	368	-	368
Total liabilities	<u>-</u>	<u>368</u>	<u>-</u>	<u>368</u>
Fund Balances				
Reserved for:				
Capital projects	32,142	-	103,545	135,687
Debt service	-	-	-	-
Unreserved	-	-	-	-
Total fund balances	<u>32,142</u>	<u>-</u>	<u>103,545</u>	<u>135,687</u>
Total liabilities and fund balances	<u>\$32,142</u>	<u>\$368</u>	<u>\$103,545</u>	<u>\$136,055</u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2005

	Capital Outlay Fund	Debt Service	Construction	Total Nonmajor Govt. Funds
Revenues				
From local sources				
Earnings on investments	\$-	\$-	\$930	\$930
State sources	78,140	48,753	-	126,893
Total revenues	<u>78,140</u>	<u>48,753</u>	<u>930</u>	<u>127,823</u>
Expenditures				
Debt Service:				
Principal	-	130,000	-	130,000
Interest	-	136,636	-	136,636
Total expenditures	<u>-</u>	<u>266,636</u>	<u>-</u>	<u>266,636</u>
Excess (deficit) of revenues over expenditures	<u>78,140</u>	<u>(217,883)</u>	<u>930</u>	<u>(138,813)</u>
Other Financing Sources (Uses)				
Operating transfers in	-	217,883	-	217,883
Operating transfers out	(70,162)	-	-	(70,162)
Total other financing sources (uses)	<u>(70,162)</u>	<u>217,883</u>	<u>-</u>	<u>147,721</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>7,978</u>	<u>-</u>	<u>930</u>	<u>8,908</u>
Net change in fund balances	7,978	-	930	8,908
Fund balance, July 1, 2004	24,164	2	102,615	126,781
Fund balance, June 30, 2005	<u>\$32,142</u>	<u>\$2</u>	<u>\$103,545</u>	<u>\$135,689</u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

ACTIVITY	CASH BALANCE JULY 1, 2004	RECEIPTS(1)	DISBURSEMENTS(1)	CASH BALANCE JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Art Class	\$183.07	\$57.26	\$99.95	\$140.38			\$140.38
Athletic Programs	-	5,849.00	5,849.00	-			-
All School Reunion	255.98	-	-	255.98			255.98
American Woodmark Grant	1,035.40	200.00	1,208.49	26.91			26.91
Band	21.06	3,527.94	3,396.29	152.71			152.71
Baseball	1,699.83	3,684.04	5,138.52	245.35			245.35
Beta Club	-	244.00	239.00	5.00			5.00
Book Rental	4,533.82	24,449.63	18,119.97	10,863.48			10,863.48
Boys Athletics	1,073.70	30,902.33	31,607.58	368.45			368.45
Boys Basketball	11,860.26	26,561.63	29,013.43	9,408.46	545.00	150.00	9,803.46
Boys Basketball Trips	-	9,030.00	500.00	8,530.00			8,530.00
Boys District	-	10,686.00	10,686.00	-			-
Celeste Wilson Grant	31.78	-	30.00	1.78			1.78
Cheerleaders	382.14	29,269.34	27,043.95	2,607.53			2,607.53
Concession	-	13,738.17	13,738.17	-			-
Dance Team	350.00	1,675.00	1,870.45	154.55			154.55
Drama Club	42.04	1,262.00	1,257.45	46.59			46.59
Eighth Grade	-	1,101.60	1,069.29	32.31			32.31
FCA	89.50	344.00	336.00	97.50			97.50
FHA	272.12	-	8.00	264.12			264.12
Fourth Grade	267.60	-	-	267.60			267.60
Fun Friday	688.79	-	-	688.79			688.79
Girls AAU	280.05	-	-	280.05			280.05
Girls Athletics	1,615.97	35,264.80	34,275.90	2,604.87			2,604.87
Girls Basketball	12,429.58	19,534.50	20,345.85	11,618.23			11,618.23
MS Girls Basketball	-	9,614.04	8,287.67	1,326.37			1,326.37
Golf	-	3,745.75	3,689.56	56.19			56.19
Guidance	238.00	270.00	313.05	194.95			194.95
Junior Beta	148.40	2,365.70	2,418.16	95.94			95.94
Junior Class	1,757.57	10,245.91	10,601.77	1,401.71			1,401.71
Junior Co-Ed-Y	464.92	-	-	464.92			464.92
KY Jr. Historical Society	296.09	976.50	1,115.53	157.06			157.06
Library/Media Center	262.17	4,588.20	4,762.01	88.36			88.36
Middle School Pep Club	414.48	-	36.00	378.48			378.48
Middle School Student Council	217.30	-	-	217.30			217.30

(continued)

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE (CONTINUED)
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

ACTIVITY	CASH BALANCE JULY 1, 2004	RECEIPTS(1)	DISBURSEMENTS(1)	CASH BALANCE JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Monticello School Fund	2,659.24	13,197.39	15,247.09	609.54		50.00	559.54
Middle School Boys Basketball	-	1,520.00	1,118.73	401.27			
National Honor Society	379.93	-	8.00	371.93			371.93
Outdoor Classroom	163.19	6.55	169.74	-			-
Pep Club	-			-			-
Pratt Field Trip	415.00	143.50	131.60	426.90			426.90
Physical Education Program	1,909.13	-	1,148.67	760.46			760.46
Raffle (Kelsch)	-			-			-
Science	927.74	1,539.00	1,574.58	892.16			892.16
Senior Class	37.09	21,624.89	21,661.98	-			-
Softball	36.77	5,575.41	4,240.87	1,371.31			1,371.31
Sophomore Class	1,487.30	3,730.00	5,217.30	-			-
Special Ed Cotton Candy	315.50	1,356.29	1,184.24	487.55			487.55
Student Council	306.98	304.00	291.71	319.27			319.27
SADD	19.22	-	-	19.22			19.22
Scholarship	353.13	250.00	500.00	103.13			103.13
Target K/Mart	86.05	31.47	108.00	9.52			9.52
Testing	-	360.00	360.00	-			-
Track	1,182.43	789.19	1,971.62	-			-
Trojan Savings & Loan	27,826.00	68,930.00	12,692.00	84,064.00	141.00	81,186.00	3,019.00
Twenty-first Century	8.84	121.75	130.59	-			-
Vending Machines	2,383.54	8,681.68	9,066.78	1,998.44			1,998.44
Vocational Education	335.34	-	42.12	293.22			293.22
Volleyball	3,359.47	8,652.10	11,866.56	145.01			145.01
Washington Trip	-	953.25	593.00	360.25			360.25
Woodmark Grant	1,220.00	-	799.30	420.70			420.70
Yearbook	337.42	17,943.00	17,689.95	590.47	50.00		640.47
You	470.33	293.95	646.91	117.37			117.37
TOTALS	\$87,131.26	\$405,190.76	\$345,518.38	\$146,803.64	\$736.00	\$81,386.00	\$66,153.64

(1) Included in Receipts and Disbursements are
Inter-Fund transfers in the amount of \$45,877.11.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

<u>FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>MUNIS NUMBER</u>	<u>PROGRAM OR AWARD AMOUNT</u>	<u>FEDERAL EXPENDITURES</u>
U.S. DEPARTMENT OF EDUCATION				
Passed through State Department of Education:				
Title I*	84.010	3104	373,144	\$83,464
		3105	424,672	364,985
IDEA - Part B	84.027	3374	149,484	42,709
		3375	167,241	103,840
IDEA - Preschool	84.173A	3434	15,526	9,175
		3435	15,504	11,755
Title II Part A	84.367A	4014	70,248	4,694
		4015	70,973	70,909
Title V Innovative Programs	84.298	3345	4,319	4,319
Title IV – Drug & Alcohol	84.186	4065	8,731	8,731
Rural Education Achievement	84.358B	3504	22,041	2,144
		3505	25,940	22,505
Title II Technology	84.318X	4255	10,027	10,027
Migrant	84.011	3115	18,758	17,434
Title III – Limited English Proficiency	84.365	3454	4,484	3,022
		3455	54,830	6,422
Vocational Consortium	84.048	3485	2,753	653
Other Awards				
		5505	150,000	63,122
21 st Century Community Learning	84.287A	4095	250,000	
		4094	250,000	69,038
TOTAL U.S. DEPARTMENT OF EDUCATION			2,088,675	898,948
U.S. DEPARTMENT OF AGRICULTURE				
Passed through State Department of Education:				
		Grant #		
USDA School Lunch Program *	10.555	57504-02	51,652	51,652
		57505-02	127,709	127,709
USDA School Breakfast Program*	10.553	57604-05	24,170	24,170
		57605-05	66,054	66,054
USDA Summer Meal Program*	10.559	57404-23	12,659	12,659
		56904-24	1,317	1,317
Passed through State Department of Agriculture:				
USDA School Commodities	10.550	n/a	20,701	20,701
TOTAL U.S. DEPARTMENT OF AGRICULTURE			304,262	304,262
			<u>\$2,392,937</u>	<u>\$1,203,210</u>

NOTE – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

* Major Program

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Monticello Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed at June 30, 2005.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SUMMARY OF AUDIT FINDINGS

1. The auditors' report expresses an unqualified opinion on the financial statements of Monticello Independent School District.
2. No reportable conditions relating to the audit of the financial statements are reported in the report on internal control over financial reporting.
3. No instances of noncompliance material to the financial statements of Monticello Independent School District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the report on internal control over compliance in accordance with OMB Circular A-133.
5. The auditors' report on compliance for the Title I and USDA Lunch and Breakfast Programs expresses an unqualified opinion.
6. The programs tested as major programs include Title I CFDA# 84.010; USDA School Lunch, Breakfast and Summer Meal Program (Cluster) CFDA #s 10.553, 10.555, 10.559.
7. The threshold for distinguishing Type A programs was \$300,000.
8. Monticello Independent School District did not qualify as a low-risk auditee.

FINDINGS BASED ON THE FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS

None.

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None

**Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

Kentucky State Committee for School District Audits
Members of the Board of Education
Monticello Board of Education
Monticello, Kentucky

We have audited the financial statements of Monticello Independent School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the State Committee for School District audits in the *Appendix I of the Independent Auditors' Contract - General Requirements*, and *Appendix II of the Independent Auditors' Contract - State Audit Requirements*.

Compliance

As part of obtaining reasonable assurance about whether Monticello Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Monticello Independent School District in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Monticello Independent School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However we noted other matters involving the internal control over financial reporting that we have reported to management of Monticello Independent School District in a separate letter.

This report is intended for the information and use of the Board, management, the Kentucky Department of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Greattinger & Crowley, PSC

October 21, 2005

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Monticello Board of Education
Monticello, Kentucky

Compliance

We have audited the compliance of Monticello Independent School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Monticello Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Monticello Independent School District's management. Our responsibility is to express an opinion on Monticello Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the State Committee for School District audits in the *Appendix I of the Independent Auditors' Contract – General Requirements, and Appendix II of the Independent Auditors' Contract – State Audit Requirements*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Monticello Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Monticello Independent School District's compliance with those requirements.

In our opinion, Monticello Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Monticello Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Monticello Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Board, management, the Kentucky Department of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Greattinger & Crowley, PSC

October 21, 2005

MANAGEMENT LETTER

Superintendent and Members of the Board of Education
Monticello Independent School District
Monticello, Kentucky

In planning and performing our audit of the financial statements of Monticello Independent School District for the year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of some matters that are opportunities to strengthen internal controls and operate efficiently.

The District failed to record the disposal of some fixed assets. These assets were trashed or donated without being properly documented.

Recommendation – Use a standard form to record the disposal of all fixed assets with a required authorization signature for disposal. This document should be used to update the fixed assets general journal.

Comment – This was our first year in this program. Records and forms will be properly used.

The District failed to properly approve some invoices. Some invoices were paid without an authorized signature being present.

Recommendation – We recommend all invoices have a signature of approval before being paid.

Comment - The accounts payable employee will be told to check for appropriate signatures before any bills are paid.

The District does not complete Form I-9, an employment eligibility verification form, for their payroll records for all employees.

Recommendation – Federal law requires the completion of form I-9 for all employees. Form I-9 should be completed for all new hires.

Comment – Personnel records will be checked for completeness.

The District operates a school bank which did not properly reflect the customer deposit amounts and payments did not always match the disbursements reported on the documentation.

Recommendation – Accurate updates to individual accounts need to be maintained in a timely manner. They should be reconciled at the end of each month and approved by the school principal.

Comment - The school principal will be apprised of this problem and will see accounts are timely reconciled.

Sales of “a la carte” items in the Food Service Fund were not properly recognized in the individuals accounts. These “a la carte” sales resulted in cash overages that were improperly recorded as sales of meals instead of “a la carte” sales.

Recommendation – Properly record all “a la carte” sales in each individuals account. Question excessive cash overages in the drawer in a more timely manner.

Comment - "A la carte" sales will be properly recorded, excessive cash overages will be questioned in a timely manner.

Deposits for the activity fund were not timely made.

Recommendation – Deposits should be made daily.

Comment – Deposits will be made daily.

Documentation was not maintained for activity fund tickets. Tickets were thrown away without verification of the ticket numbers.

Recommendation – Because the beginning and ending ticket numbers sold are used to verify the amount of revenue for admission to ballgames, unsold ticket numbers should be documented.

Comment - Unsold ticket numbers will be documented.

We have reported on the District's internal control structure in our report dated October 21, 2005. This letter does not affect our report dated October 21, 2005, on the financial statements of Monticello Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendations.

We wish to thank the personnel for their support and assistance during our audit.

This report is intended solely for the information and use of the Board and management of Monticello Independent School District.

Sincerely,

Greattinger & Crowley, PSC